

## Message Text

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ACTION XMB-07

INFO OCT-01 EUR-25 EA-11 ISO-00 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01

H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

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P R 171020Z MAY 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 1945

INFO AMEMBASSY MOSCOW

CINCPAC HONOLULU HI

C O N F I D E N T I A L TOKYO 6504

E.O. 11652: GDS

TAGS: ENRG, JA, UR

SUBJECT: US-JAPAN COOPERATION IN SIBERIAN DEVELOPMENT

REF: TOKYO 5831

CINCPAC FOR POLAD

SUMMARY: GULF OIL CORP. INFORMED JAPANESE MAY 17 THAT IT WOULD NOT PARTICIPATE WITH JAPAN IN COOPERATION AND DEVELOPMENT OF OIL RESOURCES ON CONTINENTAL SHELF OF SAKHALIN IN USSR. GULF SOURCES SAY CORP. DID NOT FIND MAXIMUM RETURN IN RECENTLY CONCLUDED JAPAN-USSR AGREEMENT WORTH THE RISK. JAPANESE NOW FACE CHOICE OF ACCEPTING GULF OFFER OF TECHNICAL SERVICES ON CONTRACT BASIS--WHICH WOULD DO LITTLE TO ASSUAGE POLITICAL CONCERNS ABOUT DEALING WITH SOVIETS ALONE ON MAJOR OIL PROJECT, GOING IT ENTIRELY ALONE, OR RENEGOTIATING AGREEMENT WITH SOVIETS. IF JAPAN-SOVIET AGREEMENT STANDS AS IT IS, IT WOULD APPEAR LIKELY TO HINDER EFFORTS BY OTHER U.S. FIRMS TO CONCLUDE PROFITABLE OIL  
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DEALS WITH USSR. END SUMMARY.

1. TOKYO REPRESENTATIVES OF GULF OIL CORP. INFORMED JAPANESE PRIVATE INTERESTS MAY 17 THAT GULF COULD NOT REPEAT NOT PARTICIPATE AS A PARTNER OF JAPAN IN EXPLORATION AND DEVELOPMENT OF OIL RESOURCES ON SAKHALIN ISLAND. AS NOTED REFTEL, JAPANESE CONCLUDED NEGOTIATION WITH SOVIETS APRIL 26 ON BASIS THAT GULF WOULD BE PERMITTED TO ENTER AS JAPAN'S PARTNER.

2. GULF TOLD JAPANESE THAT THEY DID NOT FEEL THAT AGREEMENT NEGOTIATED BETWEEN JAPAN AND USSR ALLOWED POSSIBILITY OF SUFFICIENT PROFIT TO JUSTIFY RISK OF OF EXTENDING LOANS WHICH WOULD NOT BE REPAID IF EXPLORATION PROJECT DID NOT SUCCEED. SPECIFICALLY, GULF NOTED THAT COMPENSATION (OR PROFIT) TO ANY JAPAN-GULF CONSORTIUM WOULD BE MAXIMUM OF \$200 MILLION (ON BASIS THAT \$100 MILLION OF RISK CREDIT WOULD BE EXTENDED FOR EXPLORATION.) (SEE REFTEL PARA 3 SUB PARA 9) THIS IN GULF VIEW WAS INADEQUATE.

3. GULF SOURCES EXPRESSED UNHAPPINESS WITH WAY JAPAN HANDLED RECENT NEGOTIATIONS WITH SOVIETS. ONLY AFTER AGREEMENT IN PRINCIPLE ON KEY POINTS HAD BEEN REACHED WITH SOVIETS DID JAPANESE CONSULT GULF ON TERMS. GULF SOURCES FURTHER MAINTAINED THAT NO OTHER U.S. COMPANY WOULD BE WILLING TO ENTER SAKHALIN DEAL ON BASIS OF TERMS JAPAN HAD AGREED WITH SOVIETS. GULF, HOWEVER, LEFT SMALL LOOPHOLE IN REFUSAL TO PARTICIPATE. GULF HAS RECENTLY ESTABLISHED GLOBAL ENERGY OPERATIONS AND MANAGEMENT CO. WHICH COULD PROVIDE TECHNICAL SERVICES ON A CONTRACT BASIS TO JAPAN FOR PROJECT. GULF EXECUTIVE WILL VISIT JAPAN NEXT WEEK TO DISCUSS LATTER PROPOSITION.

4. JAPANESE PRIVATE INTERESTS HEADED BY HIROKI IMAZATO, PRESIDENT OF THE OVERSEAS PETROLEUM CORP., AND THE GOJ'S JAPAN PETROLEUM DEVELOPMENT CORP. (JPDC) OBVIOUSLY MISCALCULATED GULF'S INTEREST IN PARTICIPATION. THEY APPARENTLY BELIEVED THAT SINCE GULF HAD REPEATEDLY EXPRESSED INTEREST IN PROJECT OVER CONFIDENTIAL

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PASSED THREE YEARS, IT WOULD COME IN ON LESS THAN FAVORABLE TERMS. AS RESULT, JAPAN NOW FACES TWO IMPORTANT QUESTIONS. A) SHOULD GOJ SUPPORT SAKHALIN PROJECT ON BILATERAL JAPAN-USSR BASIS? POSITION OF FONOFF, PRIOR TO LEARNING OF GULF'S DECISION, HAS BEEN THAT GOJ "HOPES FOR AND EXPECTS" U.S. PARTICIPATION IN PROJECT. MAJOR POLITICAL DECISION WOULD BE REQUIRED IF JAPAN WERE TO PROCEED ALONE OR WITH MINIMAL LEVEL

OF GULF PARTICIPATION AS TECHNICAL CONTRACTOR. B)  
TECHNICALLY, CAN JAPAN PROCEED WITHOUT FULL PARTICIPATION  
BY AN EXPERIENCED INTERNATIONAL MAJOR?

5. IN VIEW OF GULF'S UNWILLINGNESS TO PARTICIPATE ON  
BASIS OF JAPAN-SOVIET AGREEMENT, IT WOULD APPEAR THAT  
A JAPANESE DECISION TO PROCEED BILATERALLY ON BASIS OF  
THAT AGREEMENT WOULD SET PRECEDENT WHICH WOULD MAKE  
IT MORE DIFFICULT FOR OTHER U.S. FIRMS TO CONCLUDE  
PROFITABLE OIL EXPLORATION DEALS IN OTHER AREAS OF  
SAKHALIN OR ESLEWHERE IN USSR.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
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